

Benefits from mining in Papua New Guinea – where do they go?

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The National Research Institute (NRI) has published an interesting study of the economic benefits from the Porgera Gold Mine over its lifetime, see NRI Discussion Paper No 124, Peter Johnson, *Lode Shedding: A Case Study of the Economic Benefits to the Landowners, The Provincial Government, and the State from the Porgera Gold Mine, Background and financial flows from the mine* at [NRI](#) (available directly [here](#) [pdf]).

Benefit flows

The Porgera gold mine in Enga Province has been producing gold for over 20 years. This research identifies the benefits distributed from Porgera's operations from 1990 to 2009 at Kina 6.4 bn (at 2009 exchange rates, USD2.3 bn). Of this total, Kina 4.8bn was distributed to groups and institutions in PNG in line with the mine's Memorandum of Agreement and Kina 1.6 bn was distributed to international stakeholders.

According to calculations in Table 1 of this report, the share of total PNG benefits accruing to various parties amount to: national government Kina 1.7bn; landowners Kina 1.2bn; 'PNG nationals' Kina 1.1bn (mainly wages and contracts); Enga Province Kina 424m; Enga Provincial Government Kina 279m and; Porgera Development Authority Kina 130m. In 2009 alone, K56 million in royalties, compensation and dividends was injected into the Porgeran economy, equivalent to approximately Kina 3935 per person, a contribution substantially higher than PNG's 2009 per capita income of Kina 2337 (US\$850).

Johnson analyses Porgera's benefit flows by type of benefit as well as beneficiary. Wages and taxes have each accounted for 31 per cent of financial benefits from the mine, with business contracts close behind at 29 per cent. By contrast, royalty and compensation payments, while large kina payments, accounted for only 4 per cent and 3 per cent respectively of total benefits paid.

However you cut it, it is clear that the Porgera mine has delivered massive resources to the national government, provincial authorities, development authorities and the people of Enga province. With what results?

Impact and accountability

Section 6 of the report titled, Expenditure of Financial Benefits By Sector, is sobering reading. It concludes that the mine has put a lot of financial resources into the hands of landowners and in this respect their expectations of the mine are likely to have been achieved. However, Johnson's examination of expenditure by the services arms of government (Porgera Development Authority, Porgera District Authority and local level government) concludes that it is not possible to determine how financial flows have been turned into infrastructure or health and education services.

Johnson finds a "complete lack of transparency and accountability in many of the institutions associated with the Porgera mine" (p88). Over a billion kina in cash and benefits have been spread through the Porgera region but it is almost impossible to know where the money has gone.

This finding was highlighted by Thomas Webster, Director of the National Research Institute of PNG, in an interview with Stephen Howes reported in this Devpolicy [post](#) on 31 May. Webster noted that the operator of the mine paid different government institutions and landowner groups as they were required to do, but "... it's clearly government institutions which are not doing what they were expected to do on the ground ..." and "... the mine pays particular individual or landowner groups, but these accounts are managed by – I don't know how they do it, but it's said one or two principal landowners, and then from quiet conversations, they said that these individuals are living in Port Moresby or in Australia."

The report sets out to shed light on the perennial question of why Papua New Guinea is resource rich yet its citizens are poor. It concludes that for the communities who are supposed to be the beneficiaries of the mining wealth, the legal and payments system is complex, opaque and one-sided, and there remains a lack of transparency at both national and sub-national levels of government. The report also notes weaknesses in the national government: a failure to report the details of payments from and to mining project stakeholders, and the lack of a system that tracks how stakeholders under its control operate.

Recommendations

The report includes a number of recommendations to improve the transparency and accountability of responsible institutions. It identifies the implementation of the [Extractive Industries Transparency Initiative](#) (EITI) as the first step. But it argues that a more important step would be to increase transparency by creating an audit trail of payments from national and provincial governments to other institutions such as the Porgera Development Authority, the Porgera Landowners Association and local-level governments. Such a second-tier transparency initiative would increase the accountability of these institutions. The report argues that current mining policy debates in PNG are being conducted in an information vacuum and risk missing the larger issue of whether monies meant to improve development outcomes in Porgera have been spent appropriately.

Comment

There are a few other perspectives I would add to Johnson's.. The first is that while accurate, clear and timely information is a critical first step in improving the accountability of all institutions receiving mining benefits, it is equally important to strengthen community-based engagement in planning and monitoring agreements associated with mining projects so that local citizens are better able to demand accountability from those in positions of responsibility.

Community engagement must pay particular attention to the interests of women. A recent study by the Porgera Environmental Advisory Komiti on the social impact of the mine on women found that while the mine has provided some facilities previously lacking such as roads, hospitals and schools, many women had been impoverished and disempowered by losing access to land and livelihoods. In Porgera's predominantly patriarchal society, the benefits from the mine overwhelmingly favour men as employees or landowners. The report of this study is available [here](#) [pdf].

Another issue highlighted by this report is the relatively small shares of royalty and compensation payments in total benefits to landowning communities. So it is perplexing that during community consultations on new mining projects, these shares tend to be given a great deal of attention and the potential benefits from employment and contracting opportunities relatively less.

Finally, I note that AusAID hosted a Consultative Forum with Business (21 August) at which the government's *Sustainable economic development strategy* was launched. That strategy includes the Mining for Development Initiative which itself includes support for EITI. It will be interesting to see how the Mining for Development initiative plays out in PNG and whether it extends beyond EITI to working with mining

companies, communities and governments to help improve the development results from [mining projects](#) such as Porgera.

While this is an important report it isn't easy reading. That is due partly to the complexity of the subject matter: nothing about the regime of benefit-sharing for mining projects in PNG is straightforward. So it is very difficult for new researchers to be confident in understanding this complexity and equally challenging to write about it in an accessible way. I recommend readers with limited time tap into the Executive Summary and Overview, read Section 2 on Negotiated Responsibilities, then skip to Section 8 General Observations and Section 9 Conclusions.

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